

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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R 261851Z SEP 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 3200

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

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E.O. 11652: NA

TAGS: ENRG, GW

SUBJECT: PROBLEMS OF GERMAN OIL INDUSTRY

REF: BONN A-617, 12/18/1974

1. SUMMARY: GERMAN OIL INDUSTRY IS GOING THROUGH
DIFFICULT PHASE, BUT COMPANIES DIFFER IN ABILITY TO
WEATHER PROBLEMS AND DISAGREE ON WHAT FRG SHOULD DO
ABOUT THEM. FRG PREFERS TO LET INDUSTRY SOLVE ITS
OWN PROBLEMS, AND IS UNLIKELY TO INTERVENE IN
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ESSENTIALLY FREE AND OPEN ENERGY MARKET. END SUMMARY.

2. FROM RECENT TALKS WITH OIL COMPANY REPS (GULF, ESSO, TEXACO) AND FRG ENERGY OFFICIALS, WE HAVE DISTILLED FOLLOWING ASSESSMENT. GERMAN OIL INDUSTRY CONTINUES TO TAKE HIGH LOSSES FROM PRODUCT SALES, AND PROSPECTS FOR UPTURN ARE GUARDED. COMPANIES DIFFER MARKEDLY IN ABILITY TO WEATHER THESE PROBLEMS, HOWEVER, AND DO NOT AGREE ON WHAT STEPS, IF ANY, FRG SHOULD TAKE TO ALLEVIATE THEM. ECONMIN OFFICIAL (SCHMIDT, DIRECTOR OF OIL SUPPLY OFFICE) TOLD EMBOFF THAT, IN GENERAL, MAJORS PREFER THAT FRG LET FREE-MARKET FORCES PREVAIL WHILE OTHER COMPANIES VARIOUSLY CALL FOR REMEDIAL FRG ACTIONS -- E.G., IMPORT CONTROLS, TAX CONCESSIONS ON CERTAIN INVESTMENT -- BUT DO NOT AGREE ON WHAT THESE ACTIONS SHOULD BE. MAJORS ARE BETTER ABLE TO RIDE OUT RECESSION DUE TO DIVERSIFICATION IN OTHER SECTORS WHICH REMAIN PROFITABLE, INTERNATIONAL CONNECTIONS, AND -- IN TEXACO'S CASE -- WINDFALL PROFITS FROM DOMESTIC OIL PRODUCTION.

3. IN LENGTHY SEPT. 18 MEETING WITH ECONMINISTER FRIDERICH, GERMAN PETROLEUM ASSOCIATION (MWV) DISCUSSED OIL INDUSTRY PROBLEMS AND PUT SOME BLAME ON FRG ENERGY POLICY WHICH, BY ENCOURAGING SWITCH FROM OIL TO OTHER ENERGY SOURCES AND SEEKING GREATER SELF-SUFFICIENCY IN POL PRODUCTS, WORSENS AN ALREADY DIFFICULT SITUATION IN WHICH (A) INDUSTRY UNABLE TO DISPOSE OF HEAVY HEATING OIL, A KEY PRODUCT IN GERMAN REFINING TRAIN, (B) GERMAN REFINERIES ARE UNDERUTILIZED (INDUSTRY FIGURES SHOW THEY HAVE RUN AT 60.5PERCENT SINCE JANUARY), AND (C) IMPORTS OF OTHER POL PRODUCTS RISE. MWV CLAIMS BASIC PROBLEM LIES IN FACT THAT MOST GERMAN REFINERIES LACK MEANS TO CRACK HEAVY HEATING OIL INTO LIGHTER PRODUCTS FOR WHICH THERE IS RISING DEMAND. FACED WITH ALREADY LARGE FUTURE INVESTMENT TO MEET OBLIGATIONS IN STOCKPILING, LEAD AND SULFUR CONTROL, INDUSTRY IS RELUCTANT UNDER PRESENT CONDITIONS TO BUILD NEW CRACKING FACILITIES.

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4. ECONMINISTRY REGARDS MWV ANALYSIS WITH MUCH SKEPTICISM. IN PUBLIC AND PRIVATE COMMENT, MINISTRY NOTES THAT OIL INDUSTRY DIFFERS ON BASIC ISSUES: (A) SOME COMPANIES CONTINUE TO IMPORT HEAVY HEATING OIL DESPITE ALLEGED GLUT; (B) SOME COMPANIES CLAIM ABILITY TO EXPORT HEAVY HEATING OIL WITH EASE, DUE TO FAVORABLE LOCATION OF REFINERY; (C)

MOBIL CHAIRMAN HAS PUBLICLY REJECTED NOTION OF
IMPORT CONTROLS, OR OTHER FRG INTERVENTION IN
GERMAN OIL MARKET, WHILE
VEBA-GELSENBERG HAS CALLED FOR SUCH MEASURES; (D)
MWV UNABLE TO GUARANTEE THAT, IF TAX CONCESSIONS
GIVEN, COMPANIES WOULD BUILD CRACKING FACILITIES
OR THAT SUCH FACILITIES WOULD BE COMPETITIVE AND
NOT REQUIRE FRG SUBVENTIONS. PERHAPS BECAUSE OF
THESE DIFFERENCES, SCHMIDT CONFIRMED THAT MWV DID
NOT SEEK SPECIFIC FRG RELIEF MEASURES IN ITS
SEPT. 18 MEETING. IT PLANS TO SEE FRIDERICH'S AGAIN
NEXT MONTH.

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5. COMMENT: EVEN BEFORE SEPT. 18 MEETING, ECON
MINISTRY STATE SECRETARY ROHWEDDER ANNOUNCED THAT
FRG WILL NOT ALTER ITS BASIC ENERGY POLICY (REF),
THOUGH IT WILL CONTINUE REVIEW SPECIFIC PROBLEMS
OF GERMAN OIL INDUSTRY. FRG HAS FOLLOWED SAME
HANDS-OFF POLICY IN CASE OF OTHER INDUSTRIES HIT
BY RECESSION. FRG, AND IN PARTICULAR FDP MINISTER
FRIDERICH, ARE WEDDED TO FREE-MARKET APPROACH
AND STRONGLY BELIEVE THAT OIL INDUSTRY MUST
SOLVE ITS OWN PROBLEMS. LARGE NUMBER OF MWV
MEMBERS TAKE SAME LINE. ABSENT PERSUASIVE EVIDENCE
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OF MAJOR STRUCTURAL DAMAGE FROM PRESENT RECESSION,
WE SEE NO PROSPECT THAT FRG WILL CHANGE POLICY
TOWARD OIL INDUSTRY. MEANWHILE, COMPANIES HAVE
OBTAINED SOME RELIEF WITH NEW PRICE HIKE ON GASOLINE
AND, IF MARKET FORCES ALLOW, ARE LIKELY TO IMPOSE
ADDITIONAL HIKES IN NEXT FEW MONTHS. END COMMENT.
HILLENBRAND

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